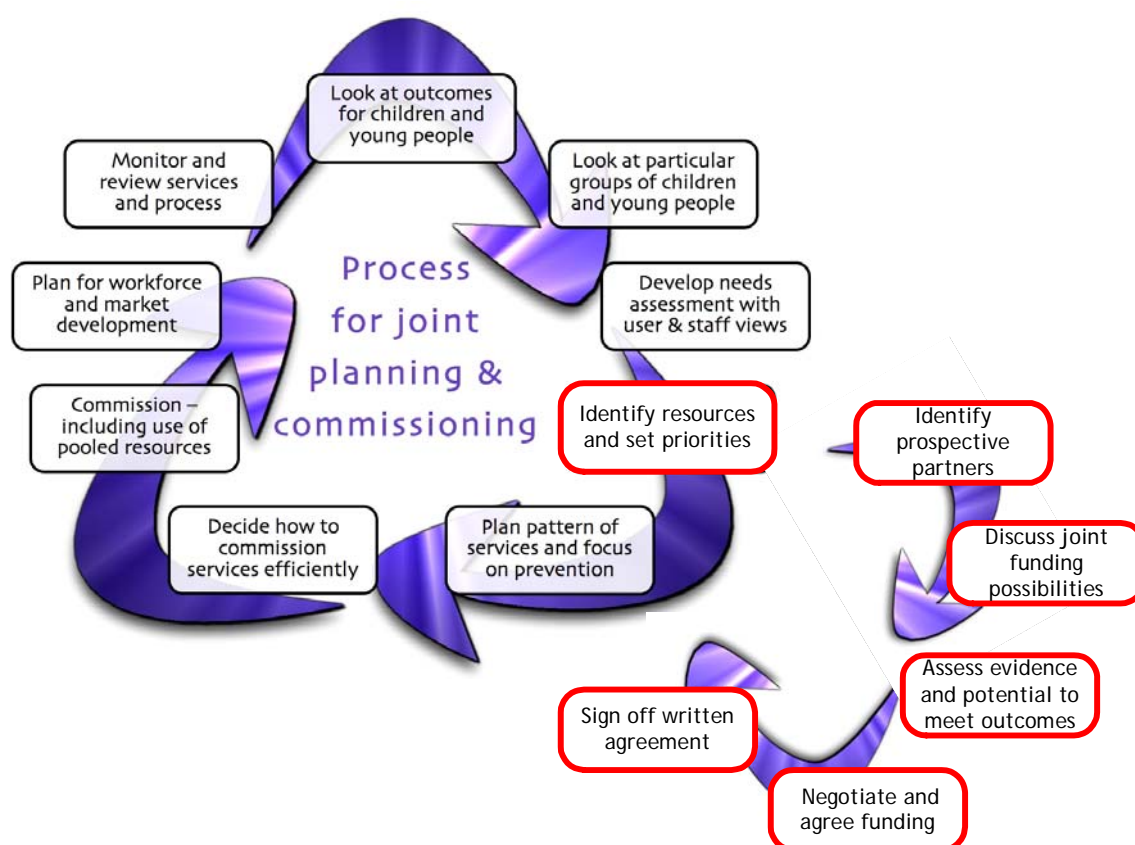


Better outcomes for children's services through joint funding

A best practice guide

August 2007



Every Child Matters
Change For Children

 **Department of Health**

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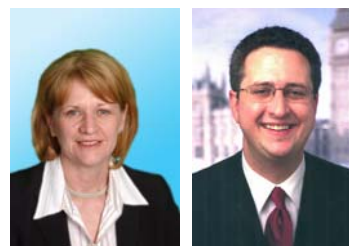
Appendix:

A: Treatment of accounts for pooled budgets

Case studies and agreement examples:

In-depth case studies and actual joint funding agreements can be found at:
www.everychildmatters.gov.uk/planningandcommissioning/jointfunding

Foreword



Joint funding is an essential element in effective joint commissioning by children's trust partners. We are now beginning to see the benefits as local partners develop and implement joint funding agreements. For example, money is being concentrated and more effectively focused to help shape local services that are better able to meet the needs of children and young people. Successful joint funding can help to reduce overheads and generate economies of scale, bringing greater efficiency.

Legislation enables local partners to create joint funding arrangements but uncertainty persists about how to achieve these in practice. That is why we are pleased to publish this guidance. It explains the key steps towards creating robust joint funding arrangements - aligned budgets or pooled budgets. The guidance also illustrates effective practice with some in-depth case studies that suggest innovative local solutions.

This practice guidance will continue to develop as more detailed cases are added and we encourage you to contribute to this growing body of knowledge. We thank those who have shared their experience and lessons by commenting on drafts of the guidance and by allowing us to feature their joint funding arrangements in the case studies.

A handwritten signature in dark ink, appearing to read 'Beverly', is centered within a light blue rectangular box.

**Beverly Hughes,
Minister of State
for Children and
families**

A handwritten signature in dark ink, appearing to read 'Ivan Lewis', is centered within a light blue rectangular box.

**Ivan Lewis, Parliamentary
Under Secretary of State
for Care Services**

Introduction

Audience & purpose of guidance

This guidance is for managers, teams, and individuals who intend to prepare, agree and operate arrangements for joint funding, such as: public sector managers; finance officers; accountants; legal advisers; and, audit officers. It should be of interest to: Directors of Children's Services (DCS); Primary Care Trust (PCT) Chief Executives; Council Members; and Children's Trust Board Members. The guidance provides advice and recommendations. As it is non-statutory, it does not place duties on local authorities. However, it builds upon existing statutory and non-statutory guidance, in particular, the 'Joint Planning & Commissioning Framework for Children, Young People and Maternity Services'.¹

The guidance sets out the benefits of joint funding, such as helping local authorities and their partners shape services around the needs of service users and so achieve better outcomes. It also gives advice on setting up pooling agreements² and illustrates effective pooling practice with some in-depth case studies that suggest solutions to problems.

This guidance has been written in consultation with the Audit Commission, which will be making it available to local auditors.

Living document

This guide is a 'living document' - and will be updated regularly and made available from:

www.everychildmatters.gov.uk/planningandcommissioning/jointfunding

Examples of good practice and your views are central to ensuring that this guide reflects the latest effective practice. If you have improvements to suggest, please email them to: nasmin.begum@dcscf.gsi.gov.uk

Acknowledgements

We are grateful to those who have commented and advised on the content of the guide. Special thanks go to Robin Lorimer of the Integrated Care Network (ICN),

¹ DCSF/DH (March 2006) available from:

www.everychildmatters.gov.uk/planningandcommissioning/

² Under Section 10 of the (Children Act 2004) or Section 31 (Health Act 1999).

the Audit Commission and the Chartered Institute of Public Finance and Accountancy (CIPFA). In particular, we are also very grateful to Lyn Frith and to the local authorities and their partners who have provided case studies, those being: Brighton & Hove, Barnsley, Newcastle and Redbridge.

Commissioning and Market Development

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www.everychildmatters.gov.uk/planningandcommissioning/jointfunding



1. Joint funding to achieve better outcomes

This chapter sets out:

- partnership commitment to joint funding
- benefits of pooled budgets and resources

Money is a vital resource and its effective use is essential to the delivery of quality services. But organisational boundaries and budgets have in the past often reflected the needs of the service provider, and have sometimes obstructed attempts to improve commissioning.

As discussed in both the commissioning framework for children's services³ and the framework for health and wellbeing,⁴ local authorities and their partners should shape services that are focused around the needs of the user. A formal agreement to commit funding and resources towards agreed shared outcomes effectively enables this, providing scope for: innovative service design; integration; close partnership working; and, the opportunity to consider redeploying and re-investing resources around prevention.

“Under formal joint funding arrangements budgets were considered to be much more secure.” James Dougan, Brighton & Hove

A formal joint funding agreement should help secure:

- clearly defined purposes;
- senior commitment to change the way children's services are commissioned and delivered, including management protocols;
- quicker and more efficient decision making;
- sustainability of long-term planning (helping to protect the money for its desired purpose);
- Dialog and agreement about service design between partners;
- Inter-agency governance structures; and,

³ DCSF/DH (March 2006) available from:
www.everychildmatters.gov.uk/planningandcommissioning/

⁴ DH (March 2007) available from:
www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_072604

- Financial accountability and audit procedures.

In the absence of secured joint funding arrangements, many have encountered problems, for example difficulties in negotiating initial contributions for a period longer than a year.

Pooled budgets and resources

Maintaining pooled budgets, and pooling other resources are key features in developing joint commissioning arrangements to better outcomes for children and young people. Various mechanisms for creating pooled budgets are explained later in the guidance. Local Area Agreements (LAAs) bring added benefits in rationalising some central funding streams and widening the dialogue between partner agencies - committing them to high-level, cross-cutting outcomes.⁵

Legislation also provides for partners to create 'discrete' pots of money, which can be handed to one partner to commission and contract on behalf of others. The additional benefits of this result in:

- clear processes and strengthened inter-partnership bonds;
- enabling money to be concentrated and more effectively focused to shape services around, and make services more accessible to the user.

"By bringing budgets together, procedures have been streamlined. The focus is now on making decisions to deliver the vision, rather than debating levels of contribution." Natalie White, Strategic Development Manager, Redbridge

- contracting and procurement to make contracting decisions on behalf of partner agencies, such as placing a single contract from a pooled budget and so reducing transactional costs, overheads, bureaucracy and delays.

"Efficiencies have been identified through a reduction in management costs." Barnsley.

⁵Further information on LAAs can be found at: www.communities.gov.uk/index.asp?id=1161635

“Resources...redirected to meet the demand from parents of young people in secondary schools.” Redbridge

- pooled funds can also generate **economies of scale**. For example, **enhanced bargaining power** to secure better unit prices; promoting the **rationalisation of suppliers** and driving down costs.

The National Foundation for Educational Research (NFER)⁶ found that local authorities are adopting a number of different approaches, including re-routing and aligning budgets. Overall, more Children and Young People’s Plans (CYPPs) have plans for pooling budgets or funds than the alternatives.

Examples of pooling⁷ include:

- All children’s services with a health dimension - £90 million pooled (Brighton & Hove).⁸
- Raft of children’s services, including: Special Educational Needs (SEN); pre-school home-visiting; Children’s Centres; out of borough residential placements; parent partnerships; community nurses - £47 million pooled (Redbridge)⁹
- Residential placements outside the local authority - £2 million pooled (Newcastle)¹⁰

In-depth case studies on each of the above authorities can be found at:
www.everychildmatters.gov.uk/planningandcommissioning/jointfunding

⁶ Analysis of Children and Young People’s Plans 2006 (NFER, October 2006). Available at: www.nfer.ac.uk/index.cfm

⁷ Figures taken from soft intelligence received through Government Offices, summer 2006.

⁸ Pooled via Section 31 Health Act 1999

⁹ Pooled via Section 31 Health Act 1999

¹⁰ Pooled via Section 31 Health Act 1999

Budget Holding Lead Professional Pilots.

Learning from the Budget Holding Lead Professional pilots¹¹ will inform government thinking on how pooled budgets could be used to support the budget holding model, which is intended to be rolled-out nationally from April 2008. An array of non-statutory guidance will soon be available, which aims to support and report on the development of the pathfinders.

2. Preparing the way

This chapter covers:

- preparation
- approach
- scope

Creating a joint funding agreement challenges partner agencies to understand how different resources could be used, uncovers the degree of duplication, and helps identify opportunities to deploy resources more effectively.

Preparation and commitment

Key features of the first stage in effective commissioning are assessing the needs of services users and identifying outcomes that should be met. Joint funding agreements provide a platform for the next commissioning stage - planning and designing services to meet those needs and deliver agreed outcomes. Essential endorsement from local authority members and senior executives is much more likely to be forthcoming if the role and potential of joint funding in better commissioning are clearly explained to them. The backing of local authority members and senior executive managers will be reinforced if they are also signatories to a written agreement.

"It's vital that you obtain early involvement of Chief Executives and, where possible, Members. We ensured that we had the highest level of representation at

¹¹ HM Treasury/DCSF have established a series of 'single account holder pathfinders' to test whether better service packages for core groups of children and families could be delivered by giving lead professionals a budget with which to procure goods and commission services directly from providers. For further information, please go to:

www.everychildmatters.gov.uk/deliveringservices/leadprofessional/

our steering group so that prestige and importance was embedded at an early stage to really power the whole process forward”

“We also found it to be essential for principle officers to fully brief our Lead Member to enable them to effectively relay developments and enthusiasm to other members” Natalie White, Strategic Development, Redbridge Children’s Trust

Widening the dialogue

As with joint commissioning, we recommend that all key partners be consulted including: schools; the ‘third sector’;¹² and, voluntary and private sector organisations, who will work in concert with the local authority and their partners, as part of children’s trust arrangements. These organisations, as part of wider joint planning and commissioning, may identify budgets with which they will want to ‘align’ or ‘pool’.

A phased approach

Depending on the size and complexity of the budgets identified, it is worth considering having a phased approach, breaking the process down into ‘bite-sized chunks’.

Brighton & Hove adopted a gradual approach to joint funding, developing an integrated management structure, integrated finance structure, and an integrated governance structure which, when allowed, enabled the pooling of budgets. They worked closely with partners to build a trusting relationship over a period of two to three years, adopting a project management approach.

“The key is the preparation that needs to go on before people have conversations about pooled budgets” James Dougan, Assistant Director, East, Early Years and NHS Commissioning, Children and Young People’s Trust.¹³

¹² This is made up of organisations that are not fully in the private or public sector, for example, voluntary organisations, community groups, and social enterprises.

¹³ From the Brighton & Hove pooled budget case study

In the first instance, partners must address some fundamental questions, such as:

- what do we want to achieve, i.e. what are the aims, objectives and outcomes of the joint arrangement?
- which funding streams will contribute to particular outcomes?

Training and getting the right people on board

Redbridge state that it's key that you get the right people running the project.

"You need someone who can translate financial terminology for anyone... that's really important particularly when you've got three other languages going on, health, education and social services" Strategic Development Manager, Redbridge Children's Trust

Further to this, Barnsley have found it extremely beneficial to train staff early on, and on a range of issues such as: service delivery planning; budget management; the basics, i.e. defining what a pooled budget is; and how they work to deliver better outcomes.

Scope

Although there is no theoretical limit to the size and shape of funding agreements, partner agencies should carefully consider their aims and the amount they are prepared to commit. They need to balance the amount of flexibility that they want to secure against their other priorities.

It is possible to have a single agreement that covers a number of separate pools. Some authorities have established a generic agreement and set out, in appendices, the specifics in relation to each individual pool. With a generic agreement, it is relatively easier to add another pooled arrangement to the agreement at a later date, although this should reflect any new governance issues and be appropriately scrutinised.

"The obvious solution is layers, so you have a 'multi-faceted' aspect to deal with

the complexity of the outside world. Aligned arrangements, through integrated management, brings with it the alignment of those budgets even though they are not pooled.....we have an integrated management structure, integrated governance structure and integrated finance structure, so when those allowed, we pooled.” Assistant Director, East, Early Years and NHS Commissioning, Children and Young People’s Trust, Brighton & Hove.

Flexibility to shape services

There are many different levels of integration within a children's trust, from integration at the front line through integrated teams, to a more strategic level of joint commissioning arrangements comprised of joint boards, panels and supporting teams/units.

Depending on the size, shape and nature of the service commissioned, it may be sensible for one partner to take the lead to commission services on behalf of another. Likewise, partners may choose to set up ‘discrete’ funds which could be used for individualised budgets, for example cascaded through Budget Holding Lead Professionals or directly to the user. The Department of Health’s recent consultation on commissioning¹⁴ sets out ways in which services can be integrated around the needs of individuals, including: enabling individuals to tailor their own care packages through individual budget pilots; direct payments; and, ‘year of care’ packages.

Partners may also choose to align money and resource through a structured system, which sets in place clear lines of governance and accountability.

As part of joint funding arrangements, partners would contribute to the running of strategic commissioning structures, governed by strategic panels and supported by joint commissioning units/groups.

The following diagrams outline two different methods of joint funding.

¹⁴ www.dh.gov.uk/en/Consultations/Liveconsultations/DH_072622

Figure 1. An example of an alignment of budgets towards agreed outcomes. In this instance, partners have retained their own financial and performance monitoring, reporting and accounting mechanisms.

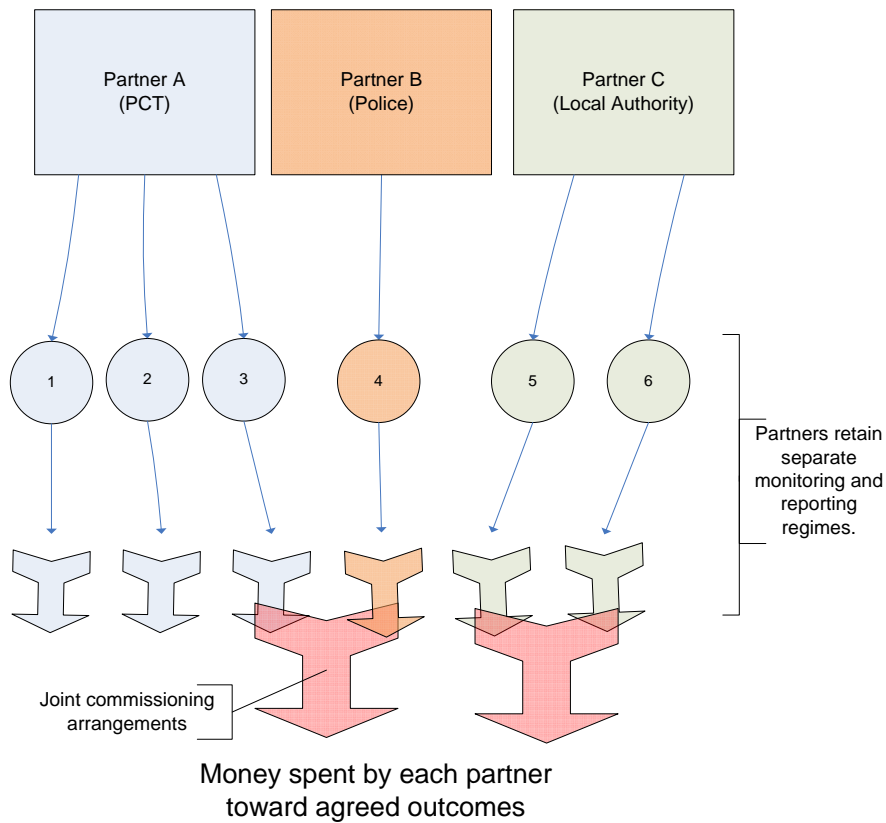
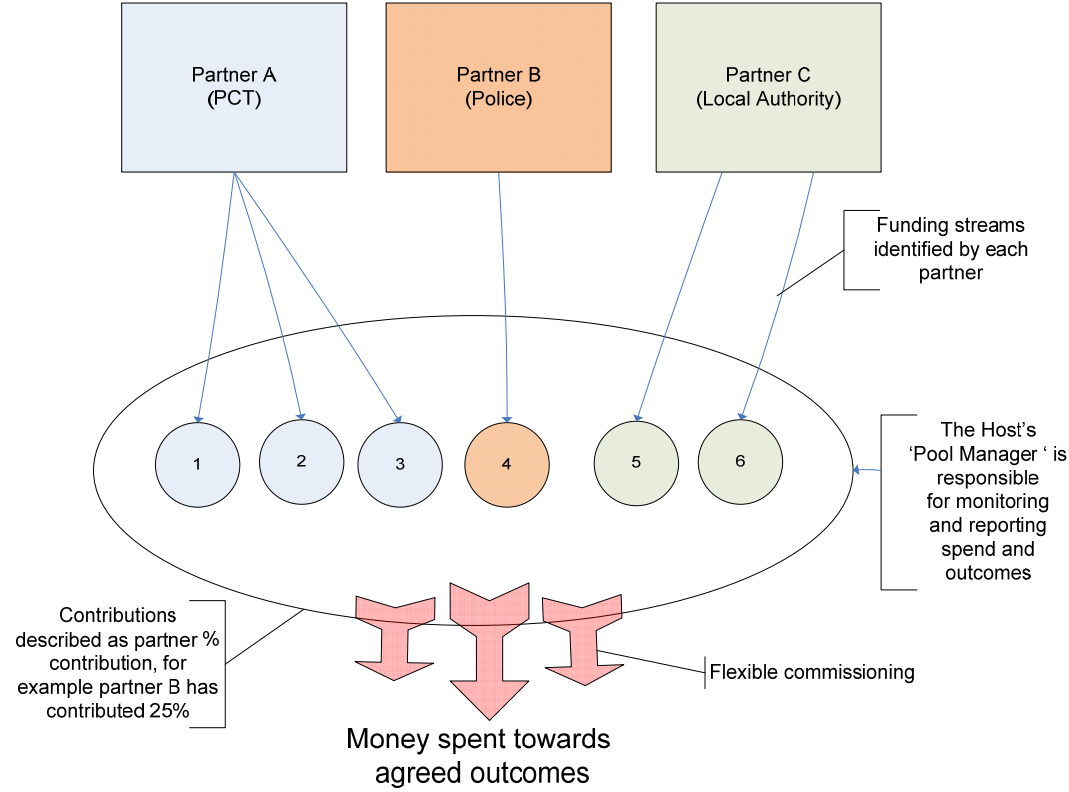


Figure 2. An example of a managed 'pooling' arrangement. In this instance, the budget is managed by a 'Pool Manager' under a single accounting arrangement.



3. Joint funding options

This chapter highlights the joint funding options available to local partners and describes their use. It covers:

- Children Act 2004 (section 10)¹⁵
- Health Act 1999 (section 31); and,
- National Health Service Act 1997 (Section 28A and Section 28 BB)¹⁶

Each local authority must make arrangements to promote cooperation between the authority and each of its relevant partners¹⁷. In doing so partners¹⁸ are able to: provide staff, goods, services, accommodation or other resources

establish and maintain a pooled fund:

- which is made up of contributions by the authority and the relevant partners; and
- from which payments may be made towards expenditure incurred in the discharge of functions of the authority and functions of the relevant partner or partners.

Children Act 2004: *A Strategic Framework for joint working*

Section 10 of the 2004 Act provides an overarching strategic framework for all of the partners to collectively work together towards common aims and outcomes, sharing their resources and using these for a jointly agreed set of aims.

Operation of a 'pooled fund'

Partners can all agree to make differing levels of contribution towards a plan for

¹⁵ Guidance on Section 10 is available at:

www.everychildmatters.gov.uk/strategy/guidance/

¹⁶ **Please note:** Most Health legislation since 1977 has been summarised within three new Acts of Parliament. They received Royal Assent on 8 November 2006 and came into effect on 1 March 2007 (subject to a few exceptions). Earlier Statutory Instruments or Regulations affecting these still apply. Thus Section 31 of the Health Act 1999 is now covered by Section 75 of the NHS Act 2006 and S28A and 28BB above are now covered respectively by S256 and S76 of the NHS Act. This chapter will continue to refer to S31 and S28 for ease of reference, these being the more familiar terms still in use within local partnership fora.

¹⁷ Section 10, Children Act 2004

¹⁸ at sub sections (6) and (7)

expenditure which draws down against their respective budgets to meet the costs involved in delivering the plan. This is the pooled fund - a fund of individual contributions, budgets and spending towards mutually agreed aims set out in an agreement.

For example, a pooled fund offers the flexibility for partner A to commit some of its own organisational resources to a pool of agreed commitments made with partners B and C. Partner A's financial contribution goes towards the costs legitimately incurred by partners B or C in the discharge of their own functions as a part of the plan.

Individual functions and contribution

The 2004 Act does not make provision for one partner to assume the functions of another nor to deliver the services of another as opposed to their own. It is instead an opportunity to agree joint objectives and to contribute towards the costs of meeting these through whichever partner generally has responsibility for ensuring service delivery. Governance should be clearly defined and underwritten by a local partner agreement to ensure that partners and others can clearly see lines of accountability for particular elements of service delivery.¹⁹

The partners to such arrangements may be wide in their number. The 2004 Act defines the range of organisations to include:

- Councils (Unitary, County and District)
- Police Authority
- Local Probation Board
- Youth Offending Team²⁰
- Strategic Health Authority

¹⁹ The DCSF intends to produce a generic Section 10 template in the autumn which will aim to reduce the burden on local authorities & partners in drafting agreements and create a useful checklist. Further details on the template will appear on:

www.everychildmatters.gov.uk/planningandcommissioning/jointfunding/

²⁰ YOTs can jointly commission and pool budgets with other partners for the benefit of children at risk of offending and those involved in the Youth Justice System. The decision on commissioning and pooling will rest with the head of service of the YOT.

- Primary Care Trust
- Learning and Skills Council and/or provider

A wider list of bodies will of course have duties in respect of the protection and welfare of Children and these are described at Section 11 of the 2004 Act, including, for example, NHS Trusts.

Health Act 1999, Section 31

Delegation of Functions

The Health Act 1999 makes provision for a broad list of functions of one partner to be undertaken - subject to agreed delegation - by another on a day-to-day basis.

These cover:

- the duties of providing and arranging Health services
- a wide range of local authority powers, including powers set out under the following Acts:
 - National Assistance Act 1948
 - Social Services Act
 - Adoption Acts
 - Mental Health Act 1983
 - Registered Homes Act
 - Children Act 1989
 - Disabled Persons (Services, Consultation & Representation) Act
 - Education Acts
 - Housing Acts
 - Housing Grants, Construction and Regeneration Act
 - Environmental Protection Act
 - Highways Act

The flexibilities

Broadly speaking there are three main flexibilities:

- 'Lead commissioning'
- 'Integrated provision'
- 'Pooled budget'

'Lead commissioning'

With lead commissioning partners may agree that one partner will act as the 'host' to commission care services for both partners. For example, a PCT managing a health budget and a local authority budget to achieve a jointly agreed set of aims. One budget may not be used to subsidise another unless this has been explicitly agreed. So in the example, the PCT could not use the local authority budget to subsidise the health budget if this is not set out in the written agreement.

'Integrated provision'

With integrated provision partners may agree that one partner will be assigned to act as the 'host' to manage services, including the staff, on behalf of both partners. Staff could be seconded from one partner to work under the management of the other. An example would be a team of nurses and a team of social workers working under the management of the 'host' partner to provide community services for children to a set of aims. The terms of the agreement should state whether there is to be any pooling of staff.

'Pooled budget'

As well as simply delegating the functions of one to another, partners may agree to create a pooled budget that would be operated by one of them on behalf of both. This means that both partners establish a discrete fund - known as a pooled budget - for the purposes of the functions of both. Both partners contribute to the pooled budget, which is managed by one of them.

So where, for example, a package of care is funded from the pooled budget, there would be no distinction made according to which partner generally has responsibility for ensuring service delivery. Similarly a single service team may be created, rather than separate teams operating alongside each other under one management. Therefore, staff working under the pooled budget agreement may undertake the duties of each other, subject to having the appropriate skills, as the boundary between health and local authority care has been removed by the Section 31 agreement. Use of a pooled budget arrangement by an NHS provider requires the PCT's consent as the local commissioner of health services.

Where there is no pooled budget agreement under Section 31, funds or staff should be managed separately by the host from their own resources or service. Although the functions may have been delegated from one partner to another, the barrier

between health and local authority care remains and governance arrangements should be clearly defined and underwritten by a local partner agreement.

The partners

The partners to the 1999 Act arrangements are defined as the local authority, including children services, and the NHS.

Information and guidance

Extensive advice and guidance on Section 31 agreements is available from the Integrated Care Network (ICN). We recommend that prospective partners notify ICN of their intended use of the 1999 Act flexibilities. ICN does not approve notifications but is required by the Department of Health to track and monitor the range and use of Section 31. This may shortly become an annual requirement to update data on local schemes alongside use of any S28 payments.

The ICN has also published a series of guides and technical notes to support development and operation of the 1999 Act flexibility agreements, covering matters such as accounting, governance, VAT and workforce. More information is available at: www.integratedcarenetwork.gov.uk/index.cfm?pid=35

Grant making powers

Section 28A

Under Section 28A of the 1977 Act, a PCT may make payments to local authorities to secure additional local authority services. This generally applies to social care and housing under resettlement and re-provision programmes.

Section 28A can be used for service revenue or capital contributions, with statutory provision for NHS contributions to capital to be returned if a scheme ceases and it was arranged by a local authority that used the Section 28A funds. The key criteria for the use of Section 28A funding is that it is consistent with the local development plan and that the NHS is satisfied that it offers a more efficient use of resources than if an equivalent amount were used directly for NHS purposes.

Section 28BB

Under Section 28BB of the 1977 Act, a local authority may make payments to the NHS where it similarly considers that the use of funds is of greater value than if an equivalent sum were spent on its own duties.

The use of Section 28A funds or Section 28BB funds requires completion of a short memorandum to confirm the broad objectives. The memorandum is available from the Department of Health website:

www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsLegislation/DH_4065252

Further information about Section 28A and Section 28BB is available from:

www.dh.gov.uk/en/Policyandguidance/Organisationpolicy/IntegratedCare/Healthact1999partnershiparrangements/index.htm

Delegation and transfer of functions

The making of a grant under S28 is not a transfer of a function - it is simply a contribution to the other partner's costs for care delivery. It does not require the other partner to identify their own contribution, nor to protect their own budget spend at any level. However, partners may draw up more detailed agreements.

Operating principles

In using any of the options outlined above, such as those for children and Section 10, partners should establish whether or not their staff are legitimately enabled to undertake each other's functions or not. Where the partner and their staff are not specifically enabled by the particular flexibility to do so, they should not attempt to carry out a function of the other partner as they have no acquired authority to do so. Failure to comply with this could lead to significant difficulties for both partners if there is a serious complaint or a critical incident were to occur.

4. Agreement set-up and management

This chapter sets out the steps for establishing an agreement. It covers:

- eligibility criteria
- resolving disputes
- agreeing the levels of contribution
- changes to the levels of contribution

We recommend that partners establish an internal framework and develop good working relations to set up an effective and robust agreement. Ideally, focusing on:²¹

- leadership and the strategic vision;
- the old and new boundaries;
- ethos of responsibility for whole systems working;
- communication - who is monitoring (performance/finance) and controlling what;
- how stakeholders' points of view are taken into account by the partnering departments/organisations;
- different operating cultures and policies of the partnering organisations;
- performance indicators/performance risks; and,
- crisis and risk assessment and management.

The following measures may help to address these issues:

- a focused overall strategic direction;
- an established team structure within the overall framework;
- reviewing procedures in place to ensure that new practice and ideas are quickly integrated into delivery;
- agreed protocols especially for conflict resolution and schemes of delegation; and,
- good project management, including:
 - risk assessment and management;
 - robust financial management;

²¹ CIPFA LEA education panel focusing on pooled budgets (March 2005 newsletter):
www.cipfa.org.uk/panels/childrens_services/download/newsletter_number9.doc

- defined approval paths for decision making;
- agreed and clear reporting line;
- agreed management information requirements and timetables; and,
- effective performance indicators.

“I don’t think it can be over-emphasised the necessity for finance to understand the function and the vision of what we’re doing...I don’t think people expect finance to be as creative as they have the capacity to be in looking at how they can support us in making the vision a reality.” Natalie White - Strategic Development Manager, Redbridge Children’s Trust

Eligibility criteria²²

As part of the annual budget-setting process, eligibility criteria should be agreed and used to assess the proposed expenditure. This should help each partner’s accountable officer to determine whether it is feasible to deliver the agreed services within the resources available.

Resolving disputes

Despite every precaution, disputes may arise. Agreeing a protocol for resolving disputes in advance as part of the agreement is a key element of preparation for partnership that can help to reduce any subsequent conflict. A well-founded partnership should preclude the possibility of litigation, having founded itself on good communications, trust and a ‘win-win’ approach.²³

However, there may be a number of reasons why the partnership agreement needs to be reviewed. These include fundamental reviews as a result of changes in a partner’s aims or priorities, best value or inspection recommendations. Reports to the joint board, or to the individual partners, should identify when a review is necessary.

Partnerships may also be reviewed as a result of difficulties to do with the partnership itself. We recommend that it is made clear from the outset how disputes will be handled and a protocol is a useful way of setting this out. It could

²² ‘Eligibility criteria’ definition: see glossary

²³ CIPFA’s guide ‘Building Effective Partnerships’ provides more guidance.

include:

- grounds for reviewing the partnership;
- timescales required for changing the arrangement or bringing it to an end;
- how disputes about budgets or quality of service would be handled;
- what would happen in the event of the termination of the whole or part of the partnership, including the arrangements for staff management and service delivery, such as return of seconded staff, maintaining continuity of service, asset allocation, and liability for debts;
- disposal or transfer of fixed assets;
- withdrawal of one or more partners.

Agreeing the levels of contribution

Each partner should agree a level of contribution, which should be managed and used for the services specified in the agreement to fulfil agreed outcomes.

The starting point for most prospective partners in a joint funding arrangement is the need to identify existing budgets to be covered by the agreement. In some cases pooled funding arrangements may be formed for particular purposes using new resources identified for the purpose, but in most cases, and certainly where significant budget pooling is planned, existing budgets will have to be disaggregated.

This may be straightforward for some direct service budgets where these have historically been managed in a way that makes them clearly identifiable. However, in other cases more work may be needed to disaggregate expenditure on children's services from expenditure on adult's services, or to disaggregate expenditure from one type of children's service from another, such as mental health services or home care.

In addition to budgets for direct services, the costs of various types of support should be considered. Whether these costs are included or not will depend on the arrangements for delivery.

Effective disaggregation should help partners agree baseline budgets which should be recorded in the partnership agreement.

Prior to 'phase one' of the new arrangements in Redbridge, the local authority and the primary care trust worked together to disaggregate budgets and to decide which monies would be pooled. Following 'phase two', a further process of disaggregation was undertaken to align budgets with the new multi-agency teams and the new management structure. Further details can be found at: www.everychildmatters.gov.uk/planningandcommissioning/jointfunding

The impact of performance indicators (PIs)

Performance indicators can have a significant bearing on how flexible local partners can be in a joint funding arrangement. All contributors to the arrangement should be aware of any key PIs that partners have to report on within the pooled services and be clear about how these will be managed. It is crucial that, even where partners have key PIs to report separately, this does not unnecessarily limit the potential benefits of joint funding.

Changes to the levels of contribution

The agreement should set out how contributions will be agreed in subsequent years, including conditions for recalculating the contributions due to changes in the partnership's size, composition, mix of functions commissioned, or dissolution. Key factors to consider include:²⁴

- how to determine the inflation factor that is to be applied to budget contributions. This does not have to be the same for all contributors but there needs to be agreement about how each partner will determine the rate to be applied;
- how pressures on budgets, other than inflation, will be dealt with;
- how budget growth will be handled. This is from two perspectives: one where a partner wishes to contribute more to the budget to deliver particular new services; and the other, where growth in expenditure is required and the respective contributions of partners to that growth have to be agreed;
- how to deal with the need for any partner to reduce their contribution to the budget in real terms;

²⁴ CIPFA, 2001, 'Pooled Budgets: A Practical Guide for Local and Health Authorities'

- how to agree on efficiency measures that may be needed from time to time; and,
- end of year arrangements.

5. Governance

This chapter sets out the steps for establishing governance arrangements. It covers:

- children's trusts
- accountability arrangements
- risk assessment, risk management and clinical governance
- performance measures and monitoring
- information sharing

It is essential to have clear and effective arrangements in place for decision making which are underpinned by a mutual understanding of authority, responsibility and accountability for services.

Children's trusts - an overarching governance framework²⁵

Children's trust²⁶ governance frameworks will reflect arrangements for integrated working, comprising joint planning and commissioning, integrated processes and integrated front line delivery for improved outcomes for children, young people and families. These should set out accountabilities for decision making and spending - including the use of pooled budgets.

Robust governance is clear and effective. Boards, groups and committees should have clear terms of reference set out in writing, rationale for membership, and clarity of engagement with other strategic boards. Staff should know who is ultimately responsible for decision making and expenditure.

We also recommend that children, young people and families are able to influence the decision making process and assessment of outcomes, either by being given a voice in governance or through consultation.

Accountability arrangements

²⁵ For more information on children's trust governance and accountability, a Q&A is available at: www.everychildmatters.gov.uk/resources-and-practice/search/IG00019/. For statutory guidance on the Children Act 2004, please visit the following site: www.everychildmatters.gov.uk/strategy/guidance/

²⁶ 'Children's trust' definition: description of arrangements that produce integrated working at all levels, from planning through to delivery, with a focus on improving outcomes. Further information: www.everychildmatters.gov.uk/aims/childrenstrusts/

Flexible joint commissioning arrangements require the involvement of all relevant partners and a process whereby all partners endorse commissioning decisions. This could be through agreed decision making by all partners of a joint body or would require ratification of decisions through the separate processes of all partners.

Level at which decisions are taken

Depending on the size and nature of the joint funding arrangement and agreed outcomes, decisions could be delegated to a Board, Joint Commissioning Unit or even Budget Holding Lead Professionals. Clear 'terms of reference' and a written constitution should be provided for those with responsibility for making decisions to ensure transparency about the agreed process for decision making and handling of disputes.

As explained earlier, it is possible to have a single agreement that covers a number of separate joint funding arrangements. Some partners have established a generic partnership agreement and set out, in appendices, the specifics in relation to each individual pool. The agreement should clarify the governance and accountability of each pool - this could be achieved through a generic system for all pools or through separate arrangements where only certain partners have contributed.

Enabling & responsive arrangements

The accountability arrangements should allow for appropriate delegation and risk management. We recommend that they are clear and robust so that if a critical incident occurs it is immediately apparent which partner is responsible for the particular elements of service delivery. This will enable managers to review processes and procedures swiftly and to alert the strategic leadership quickly. If the accountability arrangements lead to delays in decision making, or excessive need for intervention in individual cases by strategic decision makers, then they are probably too cumbersome and need to be reviewed.

Accountability and staff

Partners to the agreement should ensure that there are clear lines of accountability for managers and staff, including front line staff who do not work for the local authority. Arrangements for effective performance management, delegated authority and supervision should also be clearly outlined.

Aims of good governance

The aims of good governance should be to ensure that public service bodies and the individuals within them can provide an account of:

- the outcomes of the arrangement;
- operational objectives and priorities;
- proper and efficient use of public money;
- quality of services provided and value for money.

Decisions and actions should follow a process that clearly identifies who took the decisions and actions for appropriate external scrutiny.

Key issues to be borne in mind:

- Openness:
 - access to information in accessible formats about performance, meetings, decisions and actions;
 - communication with stakeholders;
 - appointments - openness of the process.
- Financial and performance reporting:
 - transparent and joined-up reporting mechanisms;
 - planning documents, particularly health improvement programme.
- External audit and corporate governance:
 - compliance;
 - codes of governance - standing orders, standing financial instructions, schemes of delegation;
 - conflicts of interest;
 - complaints procedures;
 - independent review.

Risk assessment, risk management and clinical governance

Sound project and risk assessment/management are key to effectively managing joint funding arrangements. For example, there should be a register of risks that

sets out for each risk the likelihood of it happening, the impact it would have, and what can be done to remove or mitigate the risk. This register would need to be reviewed and updated from time to time as implementation progresses.

We recommend that the risk strategy sets out a framework detailing areas of risk, including:²⁷

- finance (i.e. capital maintenance)
- clinical governance (i.e. drawing up statements for roles and accountabilities for clinical staff)
- professional supervision (i.e. to ensure staff are working to professional standards).

Individual partners should ensure that these risks are appropriately reflected in their own risk register. Where NHS staff are managed by other partners, there should be an agreement on how they should comply with clinical governance requirements. There should be written statements identifying responsibilities and accountability arrangements for the provision of clinical services.

Managers should ensure that staff, work to the professional standards that are expected by the partnership. Where arrangements are made for staff to work outside their professional boundaries, there should be prior agreement to the arrangements for professional supervision.

Monitoring performance

Performance measures need to be developed that are based on outcomes, reflect a balanced view of progress towards objectives and meet the aims of all partners.

We recommend that partners to the agreement consider whether they need to review or adapt their existing arrangements for monitoring performance to ensure they are appropriate and sound. This should be reflected in the partnership agreement.

Information sharing

Performance and financial monitoring arrangements should be robust and appropriately married-up - and across partnerships. For example, without the

²⁷ CIPFA, 2001, 'Pooled Budgets: A Practical Guide for Local and Health Authorities'

crucial information exchange between commissioners about who they are contracting with plus the performance of that provider, then mistakes in commissioning are likely to occur.

We recommend that information needs and how they should be met is made clear at the outset to all partners. The agreement should set out when partners are to receive timely and accurate information. Data should be consistent and definitions should be agreed to ensure mutual understanding. Information sources also need to be made available to auditors. We recommend that the following points are considered:²⁸

- the level and nature of information to be provided;
- who is responsible for providing that information; and
- who should receive that information and at what intervals.
- consider the different final accounts timetable that bodies are working towards.

All commissioners should undertake joint needs assessments as a matter of good practice.²⁹ The 'Commissioning Framework for Health and Wellbeing'³⁰ proposes a statutory duty on PCTs and local authorities to produce a 'Joint Strategic Needs Assessment' based on joint analysis of current, and predicted health and well-being outcomes.

Other issues to be addressed include board representation, selection and assurance of balance.

²⁸ CIPFA, 2001, 'Pooled Budgets: A Practical Guide for Local and Health Authorities'

²⁹ For more information please see:
www.everychildmatters.gov.uk/strategy/planningandcommissioning/

³⁰ Part of the White Paper Our health our care our say implementation. DoH are consulting as part of the development of a final document to be published in Summer 2007.
www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_072604

6. Financial management of a pooled budget (or discrete pooled fund)

This chapter sets out the steps for managing pooled budgets. It covers:

- 'host' and 'pool manager'
- monitoring spend and managing the books
- over and under-spends
- audit
- Value Added Tax
- Capital and assets
- Service Level Agreements

The previous chapters of this guidance have explained the key elements required within a robust joint funding agreement. This chapter addresses key factors in managing a discrete pooled fund or 'pooled budget'.

The financial framework for the pooled budget should reflect the intended aims and outcomes and the budget should be included in a written agreement. Responsibility for public funds brings with it a duty to maintain the highest standards of probity and governance and to ensure best value for money in the use of resources. We recommend that auditors are consulted early on to ensure a robust agreement is put in place.

'Host' and 'pool manager'

The pooled budget should have a 'host' body and the host should be responsible for monitoring expenditure against the budget in accordance with the requirements set out in the partnership agreement. The host should provide the financial administration systems on behalf of the partners, but should not incur any additional liabilities, except those that relate to the management of the budget. The pooled budget can be hosted and managed by a statutory partner, or it can be hosted by a statutory partner and managed on their behalf by another body contracted to do so.

Responsibilities of the host should include: monitoring, reporting and producing balance sheets together with the allocation of the amounts between partners.

For each pooled budget, there should be a manager who could be nominated either from existing staff or appointed by the partners and operate as part of the host body.³¹ We recommend that managers have access to expert financial support and advice from within the host authority. They may also need advice from partners so that they understand conventions and requirements.

Access to funds

Local partners identified in a pooling agreement may access funds and take decisions on the use of these resources, according to the process agreed locally between designated staff and the pool manager. There should be an agreed process that authorises designated staff to do this. They should assess each individual case in line with the eligibility criteria for services which are part of the agreed functions.

Monitoring spend and managing the books

Financial management and monitoring arrangements are often complex to resolve. The agreement should set out the types of expenditure that can legitimately be charged to the pool and the reporting requirements of the partners. Given the nature of a pooled budget, partners should account for their contribution to the budget and the host should be responsible for monitoring and reporting. A simple rule in accounting for a pooled budget is that – regardless of whom the host partner may be – the presentation of the accounts of all the partners should look the same.

A pooled budget arrangement, in financial accounting terms, is described as a ‘Joint Arrangement Not Entity’ or ‘JANE’. Financial Reporting Standards 9: Associates and Joint Venture (FRS 9)³² states that:

“..participants should account for their own assets, liabilities and cash flows measured according to the agreement governing the arrangements.”

Further detail on the treatment of accounts for a pooled budget can be found at Appendix A, which includes an example of accounting arrangements for a pooling agreement involving the local authority and two PCTs.

³¹ General practitioners cannot be pooled budget managers, but can manage the budget on an operational basis on behalf of a statutory authority.

³² www.frc.org.uk

Managing over-spends and under-spends

It is essential that there is clarity from the outset about how surpluses or deficits will be apportioned, and that this is written into the agreement.

Monitoring requirements should specify that any projected over-spends or under-spends should be drawn to the attention of the partners at the earliest possible opportunity, with reasons for their occurrence and options to address them. This is essential, particularly for PCTs who are not allowed to over-spend against their revenue or capital resource limits. Dialogue at the earliest stage will enable partners to manage this before the financial year-end.

In cases of over-spend and under-spend, the accounting response is dictated by FRS 9.³³ Therefore no year-end balances can be reflected in the pooled budget and thus result in year-end adjustments to the accounts of the partners. Appendix A, also explains the accounting response to over-spends and under-spends. The latest guidance can be found on the Financial Reporting Council's website at: www.frc.org.uk/asb.

It should also be noted that the NHS carries out an 'intra-NHS agreement of balances' exercise at months 6, 9 and year end, and so it would be expected that any intra-NHS balances arising through pooled budgets would be agreed at that point.

Brighton & Hove's Director of Children's Services (DCS) has a duty to notify the Chief Officers' Group within 10 working days of any projection of an under spend or overspend together with reasons for that projected overspend or under spend. Following this the Chief Officers Group would devise a recovery plan. If the plan meant a reduction in services, the CYPTB¹ would need to be notified in order to agree to revise the relevant year's budget and contributions or services, authorising the DCS to take any remedial action.

³³ www.frc.org.uk

Deficits

Clearly pooling budgets becomes more difficult when some potential partner organisations are in deficit. But it can succeed, given a strong commitment to building an effective partnership. Options include:

- an undertaking by partner organisations to fund or underwrite the deficit and making a commitment to sustain this in subsequent years. This would need to be set out in the agreement; and
- agreeing that the budget will be brought into balance by a mixture of efficiency savings and additional funding.

Audit

As pooled budgets may form a significant portion of the accounts of a partner, the external auditor may seek assurance on the items included in the partner's accounts. In particular, this may include the treatment of under-spends and over-spends and the division of the pooled budget balance sheet. Appendix A provides an example of the treatment of accounts.

Health

Section 31 Regulations had stated that the host authority was responsible for ensuring the audit of the partnership accounts, certified by an auditor appointed by the Audit Commission. This was an annual return under the grants and returns regime (in the form of a Memorandum of Accounts). However, this return is no longer subject to such certification by the Department of Health, who have relaxed this requirement in response to the Audit Commission's recommendations in a review of NHS finance and accounting.³⁴

Although a formal return is not required, the Department of Health states that it is crucial that PCTs are able to account for their share of transactions and balances arising from pooled budget activities.

Internal audit

We recommend that the role of internal audit and how it will be provided is also

³⁴ Audit Commission Review of the NHS Financial Management and Accounting Regime' (July 2006). www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=F27AD3E2-7FF4-4cdd-BB92-DF5C4BDD18FF&SectionID=toc

considered. The issues the partnership would need to address include:³⁵

- should the internal auditor be that of an existing partner or another?
- how is the appointment be managed?
- to whom is the internal auditor accountable?
- how are the costs financed?

We recommend that there is liaison with the auditors of partners as there may otherwise be some overlap of interest in the arrangements and it should be possible for auditors to agree to work together. Any discussion in advance of these arrangements with the auditor should help to prepare the ground.

VAT Arrangements

There are two key options partners may select from:

1. the VAT regime of the 'lead partner' is applied;
2. the 'lead partner' acts as an 'agent' for the other partners, where the lead partner:
 - a. arranges for invoices against agreed goods to be sent directly to partners
 - b. purchases/provides goods and services, then arranges to invoice the other partner.

For further details and examples of these methods, please see:

www.integratedcarenetwork.gov.uk/index.cfm?pid=10&catalogueContentID=457

General guidance on VAT can be downloaded from the HM Revenue and Customs web page.³⁶

Health

Local authorities and NHS bodies are governed by different VAT regimes. Local authorities can reclaim from Customs most of the VAT they incur in performing their functions. NHS bodies are recompensed through their funding for any VAT

³⁵ CIPFA, 2001, 'Pooled Budgets: A Practical Guide for Local and Health Authorities'

³⁶ www.hmrc.gov.uk/home.htm

that cannot be reclaimed, although they can reclaim from Customs VAT incurred on certain contracted-out services. In partnership arrangements, partners should be clear which VAT regime governs their activity.³⁷

A copy of the latest Advisory Note which addresses the key points about the treatment of VAT for partners entering into S.31 agreements³⁸ can be obtained from the ICN website at:

www.integratedcarenetwork.gov.uk/index.cfm?pid=10&catalogueContentID=457

Capital and assets

As described above, the pooled budget is treated in financial terms as a 'JANE',³⁹ and thus partners cannot own assets through the pooled budget. Therefore any assets procured by a partner for the pooled budget arrangement must remain with that partner but, can be used by agreement by delegated partners as part of arrangement. Other partners may make a financial contribution to that partner, though the transaction would be separate to the pool, such as provision of support or buildings. For example, Brighton & Hove agreed that the costs associated with the buildings would remain with the existing owners. Where buildings were shared with adult services, costs were apportioned based on floor space and primary occupancy.⁴⁰

Service Level Agreements (SLAs)

The requirements set out in the partnership agreement should be considered when contracts or service level agreements (SLAs) for service provision are being negotiated as much of the detailed monitoring information can only be supplied by the service provider. The host should ensure that contracts and SLAs include requirements for the provision of budget monitoring information. The presentation of budget monitoring information to partners needs to be in a format that is understandable and compatible with the way partners manage and monitor budgets.

Further issues to be addressed:

³⁷ For further information, please see CIPFA, 2001, 'Pooled Budgets: A Practical Guide for Local and Health Authorities' (pages 41-44)

³⁸ Health Act 1999

³⁹ 'JANE' definition: 'Joint arrangements that are not entities'

⁴⁰ For further details of arrangements in Brighton & Hove, please go to:
www.everychildmatters.gov.uk/planningandcommissioning/jointfunding

- would pay and non-pay inflation be financed, and if so, how?
- would a central provision for inflation be maintained, and if so, by whom?
- would efficiency savings be applied, and if so, how?
- would the efficiency savings be cash releasing or activity based?
- how would efficiency savings be determined and managed?
- how would capital investment be financed?
- who would have ownership of the assets?

7. Putting agreements on the record

This chapter sets out the steps for establishing a written agreement. It covers:

- good practice in drafting the agreement
- legal advice
- agreement checklist
- insurance
- examples of section 31 and section 10 agreements

Chapters 5 and 6 touched upon a number of key questions that need to be addressed to shape a robust agreement and highlighted where difficulties can occur.

We recommend that partners both individually and jointly engage legal and financial support when the time is right. Time and money can be saved by completing all necessary discussions and negotiations before legal advisers are brought in for example, partners may wish to draft an agreement themselves. We also recommend that partners also carefully consider the nature of the legal advice. Unless there is clarity, you may attract more advice than initially sought, adding a range of new issues and extensive legal time to the process, where, perhaps partners were already satisfied. The key question is basically: “is what we have discussed legally compliant with legislation?”

The functions to be covered by the arrangement should be clearly set out in the agreement, together with any exceptions or exclusions. It should be made clear that the arrangements do not affect statutory responsibilities. All agreements should address the circumstances in which the agreement could terminate and the way in which a dissolution of partnership arrangements should be handled.

In addition, we recommend that definitions or a Glossary of terms is included in the agreement to provide clarity and avoid misunderstandings - it is often the case that local government and, say, the health sector use the same terms with slightly different meanings. Partnerships build trust where there is clarity.

One key point to remember at the outset is that the agreements may be amended in the light of experience. Partners are more likely to ratify an agreement if they

know there will be an opportunity to review and possibly change it later. A commitment to review the agreement could be included in the agreement itself. It may, for example, be appropriate to review the agreement after the first six months and then to agree the point for subsequent reviews.

A checklist of key agreement contents is shown below.

Basic agreement checklist:

- aims and objectives of partnership arrangements
- description of arrangements
- flexibilities to be used
- governance arrangements
- baseline budgets
- contributions to the pool - how to agree
- delegations
- arrangements for handling growth or cuts in funding or resources
- apportionment of assets and liabilities at the end of each financial year
- budget host
- arrangements for monitoring finance and performance
- accounting and internal audit arrangements
- VAT
- insurance
- staff transfers or secondments and agreements in place
- TUPE arrangements
- change management protocol
- training and development
- clinical governance, care practice and education standards
- boundary issues
- handling complaints
- management of disputes, termination and exit strategy
- information sharing
- provision of support services
- estates and facilities management
- arrangements for review
- any other matters partners consider appropriate.

Insurance

It is essential that an agreement is reached on how insurance claims relating to integrated services would be dealt with. Insurers should be consulted so that insurance cover is not compromised by any changes they are not aware of.

For example, Brighton & Hove encountered insurance issues about the NHS Litigation Authority, which could have prevented the agreement being finalised. Brighton & Hove found that an essential element in resolving the issues was having support from both the PCT and local authority Chief Executive. Brighton & Hove's case study can be found at:

www.everychildmatters.gov.uk/planningandcommissioning/jointfunding .

Examples

For your information, we have provided an array of joint funding agreements which can be found at:

www.everychildmatters.gov.uk/planningandcommissioning/jointfunding .

These include:

Section 10 agreements:

Ealing and East Riding

Section 31 agreements:

Hampshire; Redbridge; Newcastle and Dudley.

8. Glossary

For the purposes of this guidance:

'1977 Act': The National Health Service Act 1977

'1999 Act': The Health Act 1999

'2004 Act': The Children Act 2004

'Aligned funding': Commitment by partners to work toward shared objectives and decisions to commission services jointly. Funding streams remain separate.

'Children's trust': description of arrangements that produce integrated working at all levels, from planning through to delivery, with a focus on improving outcomes. Local authorities are encouraged to be flexible and innovative in creating solutions to integrate children's service, they may choose not to call this a 'children's trust', but the important point is that the way of working is in place and committed to.⁴¹

'Commissioning': Commissioning is best defined by its four key stages:

1. Identifying outcomes, national and local priorities, consulting service users and providers, and needs assessment and analysis;
2. using data and knowledge to plan and design sustainable provision;
3. procuring and contracting services; and,
4. performance managing and reviewing service delivery.

This forms an ongoing commissioning cycle, with stage 1 forming a baseline so that changes in outcomes can be measured during stage 4.

'Contributions': partner contributions to the pool.

'CYPP': Children and Young People's Plan

'Eligibility criteria': the criteria agreed between the partners to the agreement which prospective service users must meet in order to be eligible for the agreed services.

'FRS': Financial Reporting Standard⁴²

'JANE': 'Joint arrangements that are not entities'

'JCU': Joint Commissioning Unit

'LA': Local Authority

'LAA: Local Area Agreement's' set out the priorities for a local area agreed between central government and a local area (the local authority and Local Strategic Partnership) and other key partners at the local level. LAAs simplify

⁴¹ www.everychildmatters.gov.uk/aims/childrenstrusts/

⁴² www.frc.org.uk

some central funding, help join-up public services more effectively and allow greater flexibility for local solutions to local circumstances.⁴³

‘Lead Commissioner’: this body is tasked by other members of the partnership to carry out certain activities for which it receives funding from the other partners.

‘Lead Partner’: see ‘Lead Commissioner’

‘Outcomes’: The five Every Child Matters (ECM) outcomes for children and young people: ‘be healthy’; ‘stay safe’; ‘enjoy and achieve’; ‘make a positive contribution’; ‘achieve economic wellbeing’.

‘PCT’: Primary Care Trust

‘Pooled funds’: a collection of identified individual partner budgets committed toward shared aims and objectives set out within a partnership agreement. Partners will either ‘align’ funds toward agreed outcomes, or hand over funding to one partner forming a ‘discrete pooled fund’ – or a combination of the two.

‘Pooled budget’: partners may agree to create a ‘pooled budget’ – a discrete pooled fund that would be operated by one of them, on behalf of all.

‘Formal agreement’: A partnership and/or financial agreement which should set out commissioning arrangements (i.e. which partner is responsible for commissioning, the intended outcomes) and financial contribution that each partner will make to commissioned services.

‘Relevant partners’: Those partners named under the Duty to Co-operate, Children Act 2004.⁴⁴

⁴³ www.communities.gov.uk/index.asp?id=1161635

⁴⁴ Children Act 2004, Duty to Co-operate Statutory Guidance.
www.opsi.gov.uk/acts/acts2004/20040031.htm